



Report of the auditor-general to the North West Provincial Legislature and the council on the Ngaka Modiri Molema District Municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Ngaka Modiri Molema District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of this auditor's report, the financial statements do not present fairly, in all material respects, the financial position of the Ngaka Modiri Molema District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for adverse opinion

Property, plant and equipment

3. The reconciliation of work in progress as disclosed in note 3 to the financial statements is incorrect. In the previous year, a prepayment of R46 403 006 was incorrectly included in work in progress additions and transfers to completed items. Completed infrastructure projects of R114 351 333 were also incorrectly still included as work in progress. No depreciation was calculated on these completed projects and I was unable to determine the impact on the depreciation expense, the accumulated depreciation, the accumulated surplus and the surplus for the year as it was impracticable to do so. In addition, the municipality did not disclose the carrying value and reasons for halting projects under construction of R62 305 399 included in work in progress for the current and previous year, indicating whether any impairment losses should have been recognised in relation to these projects as required by GRAP 17, *Property, plant and equipment*. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Inventories

4. The municipality incorrectly included some VIP toilets being constructed as work in progress under property, plant and equipment. When completed, these toilets will not be assets of the municipality and should therefore be accounted for as inventory, as required by GRAP 12, *Inventories*. Consequently, infrastructure assets included in property, plant and equipment and

the related work in progress as disclosed in note 3 were overstated by R56 411 263 and VIP toilets included in inventories as disclosed in note 6 was understated by R56 411 263. In addition, I was unable to obtain sufficient appropriate audit evidence for inventories due to a lack of record management controls by the municipality relating to journals processed against inventories. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any further adjustment to inventories of R86 258 214 as disclosed in note 6 to the financial statements was required.

5. During 2018, I was unable to obtain sufficient appropriate audit evidence for inventories due to the status of the accounting records and differences between the financial statements and the inventory listing. I was unable to determine whether any adjustment to inventories of R14 655 693 was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. I was still unable to confirm this inventory amount by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Value-added tax (VAT) receivable

6. During 2018, I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to a lack of supporting documents for journals processed against the VAT receivable. I was unable to determine whether any adjustment to the VAT receivable of R13 656 674 was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. I was still unable to confirm this VAT receivable amount by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Receivables from exchange transactions

7. The municipality did not raise a receivable for payments made to Sedibeng Water for drought relief projects being implemented on behalf of the municipality where these invoices incorrectly still included the VAT claimed by Sedibeng Water on behalf of the municipality. In addition, the municipality did not have adequate systems to maintain records of receivables from exchange transactions with differences noted between the receivables raised and the supporting documents provided. This resulted in receivables from exchange transactions as disclosed in note 7 being understated by R7 121 787 and expenditure being overstated by the same amount. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

Payables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions or for adjustments made in the current and previous years due to differences between the financial statements and the accounting records as well as the municipality not having adequate systems to maintain records of these payables. I was unable to confirm these payables by alternative means. In addition, outstanding payments relating to the drought relief projects being implemented by Sedibeng Water on behalf of the municipality were not recorded and retention fees were incorrectly calculated. This resulted in trade payables and retention fees included in payables from exchange transactions as disclosed in note 14 being understated by R6 040 961 and R5 480 409, respectively, and general expenses as disclosed in note 29 being understated by R11 521 370. Consequently, I was unable to determine whether any further adjustments relating to payables from exchange transactions of R266 117 036 (2018: R167 107 981) as disclosed in note 14 to the financial statements were necessary.
9. The local municipalities within the district provide retail water services on behalf of the district municipality as per the agreements with the district municipality. In terms of these agreements, the actual cost incurred by the local municipalities for the provision of free basic water and

sanitation services should be paid by the district municipality to the local municipalities in accordance with the Dora allocations. As the municipality did not maintain adequate records of these allocations, I was unable to determine the resultant understatement of payables from exchange transactions as it was impracticable to do so. There is also a resultant impact on the surplus for the year and the accumulated surplus.

Accumulated surplus

10. I was unable to obtain sufficient appropriate audit evidence for adjustments made to the opening balance of the accumulated surplus due to a lack of proper record keeping of supporting documents for these adjustments. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating to the accumulated surplus of R5 338 132 743 (2018: R4 907 851 745) as presented in the statement of financial position and the statement of changes in net assets was necessary.

Contracted services

11. I was unable to obtain sufficient appropriate audit evidence for the water tankering expense included in contracted services due to the status of the accounting records and a lack of implemented controls by the municipality to ensure that expenditure relating to drought relief was indeed incurred at the required level before payment was made. I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to water tankering services of R13 296 505 included in contracted services as disclosed in note 24 to the financial statements was necessary.

Repairs and maintenance

12. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance expenses as documentation to support transactions and journals was not available. I was unable to confirm these repairs and maintenance expenses by alternative means. Consequently, I was unable to determine whether any adjustment to repairs and maintenance expenses of R58 392 008 as disclosed in note 27 to the financial statements was necessary.

General expenses

13. The municipality did not have adequate systems to ensure that expenditure was correctly classified, which resulted in expenses relating to infrastructure projects, accounting fees and inventory being incorrectly recorded as consulting and professional fees. Consequently, consulting and professional fees and accounting fees included in general expenses in note 29 were overstated by R10 272 562 and R2 152 162, respectively, while infrastructure included in property, plant and equipment in note 3 was understated by R10 879 224 and inventories as disclosed in note 6 was understated by R1 545 500.
14. During 2018, I was unable to obtain audit evidence for some general expenses due to a lack of record management controls by the municipality relating to journals and payments to ensure that documents were available. In addition, general expenses was overstated by R11 018 849 due to differences between the financial statements and the supporting documents as well as expenditure having been recorded in the incorrect period. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. I was still unable to confirm the general expenses by alternate means and the misstatement was not corrected. Consequently, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Distribution water losses

15. I was unable to obtain sufficient appropriate audit evidence for distribution water losses for the current and prior period due to the municipality not having adequate control measures in place to accurately determine the extent of these losses, as required by section 125(2)(d)(i) of the

MFMA. I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustment relating to distribution water losses as disclosed in note 42 to the financial statements was necessary.

Unauthorised expenditure

16. I was unable to obtain sufficient appropriate audit evidence for the restated opening balance for unauthorised expenditure, as the municipality did not have adequate control measures in place to ensure that supporting information for this amount was available. I was unable to confirm the unauthorised expenditure balance by alternative means. In addition, the current year's unauthorised expenditure was understated by R196 877 090 as the municipality incorrectly calculated unauthorised expenditure by netting off savings from different votes against each other as well as the budget amounts not agreeing to the approved budget. Consequently, I was unable to determine whether any further adjustment to the unauthorised expenditure of R3 783 075 229 (2018: R3 771 650 131) as disclosed in note 37 to the financial statements was necessary.

Irregular expenditure

17. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure relating to the restated opening balance, prior year corrections and payments to employees outside the organisational structure for the current and prior years due to the status of the accounting records. I was unable to confirm the irregular expenditure disclosed by alternative means. In addition, the municipality made payments of R72 673 084 (2018: R77 120 845) in contravention with supply chain management (SCM) requirements, which were not included in the irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R2 730 862 858 (2018: R2 321 638 968) as disclosed in note 39 to the financial statements was necessary.

Contingencies

18. The municipality did not correctly disclose contingent liabilities as required by GRAP 19, *Provisions, contingent liabilities and contingent assets* due to the municipality not having adequate systems to ensure that all claims against the municipality were recorded. This resulted in contingent liabilities as disclosed in note 32 to the financial statements being understated by R18 680 321. In addition, the municipality did not disclose for each class of contingent liabilities at the reporting date an estimate of its financial effect, an indication of the uncertainties relating to the amount or the timing of any outflow, and the possibility of any reimbursement. I have not included the omitted information in this auditor's report as it was impracticable to do so.
19. The municipality did not correctly disclose contingent assets as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*, as the municipality disclosed contingent assets for cases that had been finalised and there was no inflow of economic benefits or service potential that was probable. This resulted in contingent assets as disclosed in note 32 to the financial statements being overstated by R16 551 685.

Commitments

20. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. I was unable to confirm these commitments by alternative means. In addition, this resulted in commitments being overstated by R40 617 248 in the current year and understated by R25 436 981 in the previous year. Consequently, I was unable to determine whether any further adjustment to commitments of

R273 750 296 (2018: R194 495 390) as disclosed in note 31 to the financial statements was necessary.

Cash flow statement

21. I was unable to obtain sufficient appropriate audit evidence for the net cash flows from operating activities and investing activities included in the cash flow statement for the current and prior period, as the municipality did not have adequate control measures in place to ensure that supporting information for these movements in the cash flow statement was available. I was unable to confirm these cash flow items by alternative means. Consequently, I was unable to determine whether any adjustments relating to the net cash flows from operating activities and investing activities included in the cash flow statement and notes thereto were necessary.

Prior year adjustments

22. I was unable to obtain sufficient appropriate audit evidence for the prior year adjustments made, as the municipality did not have adequate controls in place to ensure that the supporting information for these adjustments was available. I was unable to confirm these prior year adjustments by alternative means. In addition, the municipality did not correctly disclose all adjustments made relating to prior period errors as required by GRAP 3, *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed for all adjustments made. I was unable to quantify the full extent of the omitted disclosures as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment to the prior year adjustments as disclosed in note 44 to the financial statements was necessary.

Current assets

23. In addition to the individually material uncorrected misstatements, the corresponding figure for current assets was materially misstated by R11 429 633 due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items:

- Receivables from exchange transactions of R1 742 046 was understated by R4 564 545
- Receivables from non-change transactions of R3 000 000 was understated by R2 388 421
- Prepayments of R55 195 952 was understated by R3 000 000
- Cash and cash equivalents of R101 716 219 was understated by R1 476 667

Because these misstatements were not corrected in the current year, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Context for the opinion

24. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
25. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* as well as parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
26. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

27. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Fruitless and wasteful expenditure

28. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure of R7 673 712 was incurred in the current year while fruitless and wasteful expenditure of R12 536 167 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

30. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

31. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
32. In preparing the financial statements, the accounting officer is responsible for assessing the Ngaka Modiri Molema District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

33. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
34. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

35. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

36. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

37. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance area	Pages in the annual performance report
KPA 2 – basic service delivery	x – x

38. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

39. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

KPA 2 – basic service delivery

KPI 7: Number of awareness campaigns conducted

40. The target approved in the service delivery and budget implementation plan was 2; however, the target reported in the annual performance report was 4.

KPI 12: Volume (Quantity) of water delivered through tankering

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of this indicator. This was due to the municipality not being able to provide sufficient appropriate audit evidence to support the volume of water delivered through tankering. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 54 076 kl.

Various indicators

42. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
KPI 11: Number of households connected with yard prepaid water meter and tap	213	0
KPI 16: Number of waste treatment plant maintained	5	0

43. Measures taken to improve performance against the planned target was not disclosed for the following indicators:

- KPI 17: Number of capital projects in construction to be completed by June 2019
- KPI 16: Number of waste treatment plant maintained

Other matters

44. I draw attention to the matters below.

Achievement of planned targets

45. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 40 to 43 of this report.

Adjustment of material misstatements

46. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – basic service delivery. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

47. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

48. The material findings on compliance with specific matters in key legislation are as follows:

Consequence management

49. Unauthorised, irregular, and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

Financial statements

50. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of property, plant and equipment; transfers and subsidies; and prior period adjustments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse opinion.

Expenditure management

51. Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for adverse opinion paragraph. The majority of the disclosed irregular expenditure was caused by the awarding of contracts without following a competitive bidding process.
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R7 673 712, as disclosed in note 38 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.
55. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified, as indicated in the basis for adverse opinion paragraph. The majority of the disclosed unauthorised expenditure was due to expenditure incurred in excess of the approved adjustment budget.
56. The total unforeseen and unavoidable expenditure incurred exceeded R15 million, in contravention of municipal budget and reporting regulation 72.
57. Unforeseen and unavoidable expenditure approved by the mayor did not comply with the following condition as required by municipal budget and reporting regulation 71, in that it included expenditure that could have been foreseen at the time the annual budget was approved.

Asset management

58. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA. The non-compliance resulted in a material irregularity as reported in the section on material irregularities.

Human resource management

59. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Procurement and contract management

60. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements due to a lack of proper record keeping, resulting in requested bidding documents not being submitted for auditing. A similar limitation was also reported in the prior year.
61. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
62. Some of the invitations for competitive bidding were not advertised for the required minimum period, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
63. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
64. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

65. The preference point system was not applied in some of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000). Similar non-compliance was also reported in the prior year.
66. Some of the construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) or did not qualify for the contract in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).
67. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
68. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
69. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Other information

70. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
71. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
72. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
73. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

74. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
 - Adequate oversight responsibility regarding financial and performance reporting, compliance and related internal controls was not exercised. Management did not implement effective human resource management processes to ensure that adequate and sufficiently skilled resources were in place (especially in the finance department) and that

performance was monitored. In addition, the municipality's monitoring controls were not sufficient to ensure the proper implementation of the overall performance management system process of planning, budgeting, implementation and reporting.

- Sustainable systems and processes were not introduced for the recording, reconciling and reporting of financial information, due to an overreliance on consultants. The quality of the financial statements remains a major concern despite the use of numerous consultants to compile and review the financial statements submitted for auditing. These statements were of a poor quality and contained numerous basic accounting errors that could reasonably have been prevented had due care been exercised.
- The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information was accessible and available to support financial reporting and compliance with laws and regulations. The municipality did not prepare regular, accurate and complete financial reports that were supported and evidenced by reliable information.
- Management's continuous failure to comply with laws and regulations as well as their inability to implement controls to ensure reliable and accurate financial reporting, is a concern. This, together with the continuous non-adherence to the council's supply chain management policy without consequences, reflects negatively on management's commitment towards a clean administration.
- There was no adequate risk strategy in place that addressed identified risks in SCM, performance reporting as well as non-compliance with laws and regulations. The effectiveness of the role of the audit committee and the internal audit unit as assurance providers was compromised by management's inability to adequately address and react to internal audit findings and recommendations.

Material irregularities

75. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

76. The material irregularities identified are as follows:

A contract for the extension of the municipal office building and the construction of a new gate house was not monitored

77. The municipality appointed a supplier in 2012-13 for the extension of the existing office building and a new gate house for a contract amount of R40 096 937. Variation orders of R8 558 425 were also approved. The municipality failed to monitor the contract on a monthly basis as required by section 116(2)(b) of the MFMA.

78. On 27 March 2019, the municipality signed an addendum for an extension to the original contract with the supplier for an additional R17 977 240. A comparison of the original bill of quantities and the new bill of quantities for the additional contract amount indicated that there were items in the new bill of quantities that had already been signed off and paid for in the original contract, resulting in avoidable costs had the contract been monitored as required. This non-compliance is therefore likely to result in a material financial loss if the municipality pays these avoidable costs.

79. The accounting officer was notified of this material irregularity on 14 November 2019 and invited to make a written submission on the actions taken or to be taken to address the matter. Since the provincial treasury had already commissioned an investigation into the awarding of the initial contract and the subsequent variation orders in 2015, the accounting officer plans to request the executive mayor by 11 March 2020 to engage the member of the executive council for Finance to make the investigation report available to the municipality and the AGSA. Upon receipt of the investigation report, the accounting officer will peruse the report to assess if it



addresses all the issues raised in the material irregularity. In the event that the provincial treasury fails to release the investigation report within two months of receiving the executive mayor's request or the investigation does not adequately address all the issues raised in the material irregularity, the accounting officer plans to commission an independent investigation to adequately address the material irregularity by 15 June 2020. The accounting officer then plans to take appropriate steps based on the outcome of this investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.

Overpayment on water tankering services to communities

80. The municipality appointed a supplier in June 2018 to provide water tankering services to communities within the district. An effective system of expenditure control was not in place to ensure that the claims paid were based on the actual kilometres travelled and that the services were actually rendered as required by section 65(2)(a) of the MFMA, resulting in overpayments to the supplier. In the current financial year, the municipality paid R9 606 522 for the water tankering services. This is likely to result in a material financial loss if the overpayments are not recovered.
81. The accounting officer was notified of this material irregularity on 28 November 2019 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer indicated that an independent person should investigate the claims and quantify the financial loss. It is planned that this process will start in February 2020 and a report will be available by 31 May 2020. The accounting officer then plans to take appropriate steps based on the outcome of this investigation. I will follow up on the investigation and the implementation of the planned actions during my next audit.

Lack of system of internal control to safeguard assets

82. The municipality wrote off assets during the year that could not be located during the 2018-19 asset verification and were presumed to be stolen. The municipality only became aware that these assets were missing at year-end when the asset verification process was done. The municipality therefore did not have and maintain a system of internal control to safeguard assets as required by section 63(2)(c) of the MFMA. The write-off of R2 421 897 as disclosed in note 3 to the financial statements therefore resulted in a material financial loss.
83. The accounting officer was notified of this material irregularity on 9 December 2019 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer plans to do a full asset verification, which will include an investigation of missing assets by 31 March 2020. The accounting officer then plans to take appropriate steps based on the verification report by 30 April 2020. I will follow up on the investigation and the implementation of the planned actions during my next audit.

Other reports

84. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigation

85. An independent consulting firm is performing an investigation at the request of the North West departments of Finance and Local Government and Human Settlements. The investigation was initiated after the executive council of the North West province took a decision to undertake a comprehensive forensic investigation at the municipality following allegations of mismanagement, fraud, corruption and other related allegations, covering the period 1 January 2011 to 30 November 2014. The investigation was still in progress at the date of this report.

Auditor General

Potchefstroom

16 March 2020



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ngaka Modiri Molema District Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.